

2nd Quarter 2011

cma 
Bringing clarity to OTC markets

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Data: Methodology and Definitions

This paper focuses on changes in the risk profile of sovereign debt issuers, with the intention of identifying key trends and drivers of change.

We have divided world debt risk into eight regions: US & UK, Western Europe, Emerging Europe, Scandinavia & Nordic, Latin & South America, Middle East & Africa, Australasia & Asia. In addition to identifying themes within each of these regions, macro trends across the sovereign debt sector are also discussed.

CMA is owned by CME Group Inc and provides independent CDS pricing sourced directly from the largest and most active credit investors globally.

CDS values are calculated by CMA Datavision™, which is the only CDS pricing service to provide independent, intraday price verification for single name CDS, indices and tranches. Unless otherwise stated, all CDS are the midpoint on the five year tenor and are based on London closing values on 30th June 2011. Record highs are determined by using closing values and do not factor in intraday highs. All spreads shown in this report are PAR spreads which may not necessarily be the quoting convention used in the market.

Cumulative probability of default (CPD) quantifies the probability of a country being unable to honour its debt obligations over a given time period. For sovereign CDS, this typically includes the probability of a restructuring of debt. Unless otherwise stated, all stated values are for the five year CPD. CPD is calculated using an industry standard model and proprietary credit data from CMA Datavision™. Reference to 'risky' is purely in terms of the probability of default derived from the price of the CDS.

CMA implied ratings are calculated using a proprietary model developed by CMA and input with CDS pricing data from CMA Datavision™.

Data access: CMA provides independent, intraday pricing on approximately 1,400 single name CDS and CDS Indices. Widely used by traders, risk managers, treasurers and researchers in financial institutions across the world, CDS data is available directly from CMA or via our [channel partners](#). For more information about how CMA can help you effectively monitor and manage your credit exposures please contact us via info@cmavision.com.

Changes in CMA Sovereign Debt Coverage

Deletions:

- Switzerland

The following names remain very illiquid and the levels are based on previous observations and CMA's sector curve model:

- Hong Kong – where there was a drop in liquidity in the second part of the quarter
- Costa Rica

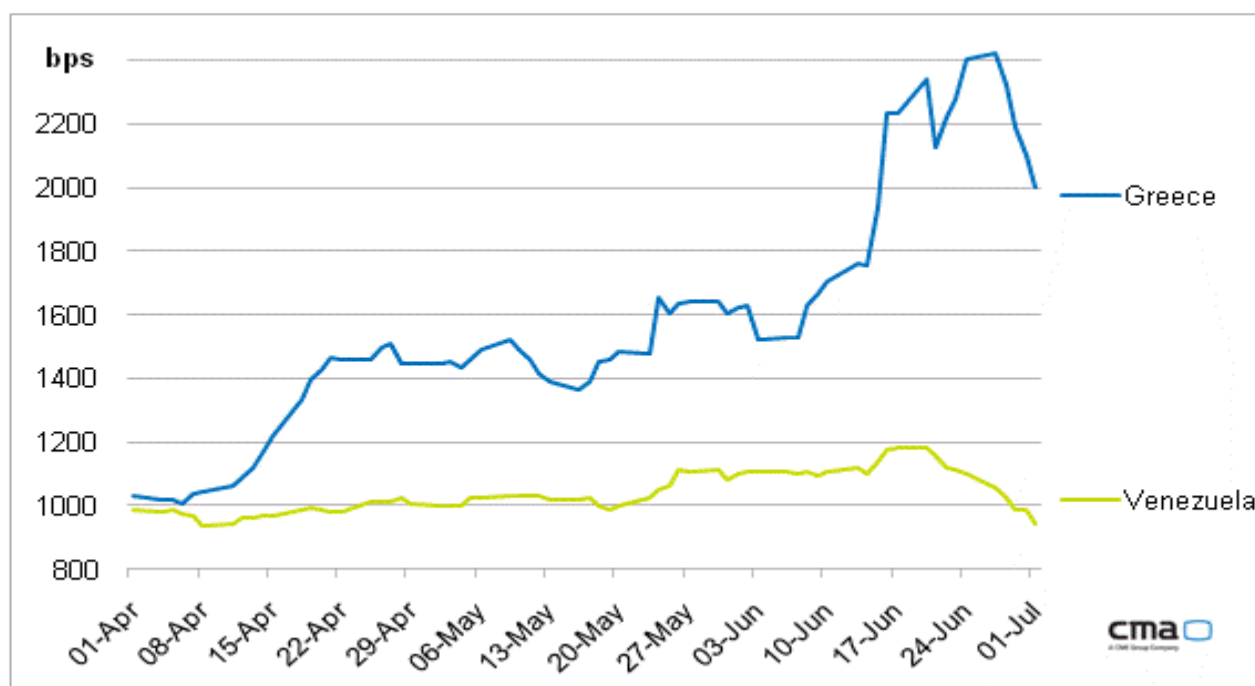
Additions:

- None

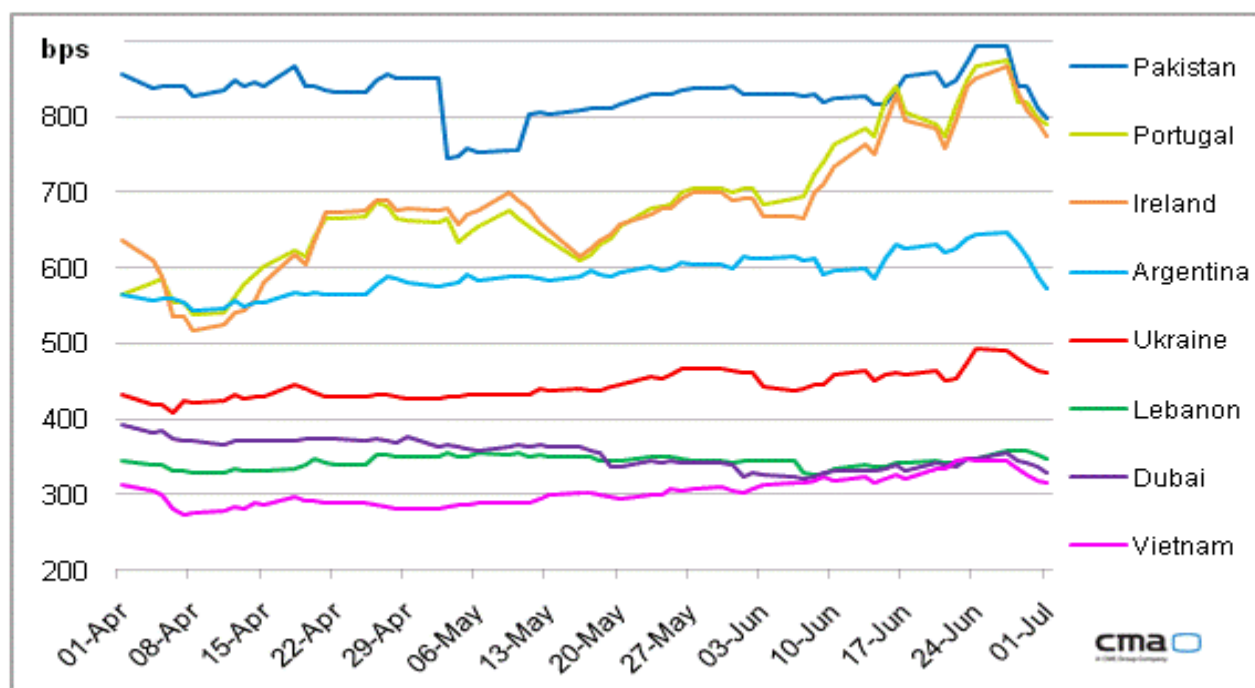
Top 10 Most Risky

Position Q4	Country	5 Year CPD (%)	CMA Implied Rating	5 Year CDS Mid (bps)	Previous Ranking
1	Greece	80.6	CMA_cc-	2100.3 (35.8% U.F)	1 (no change)
2	Venezuela	51.4	CMA_ccc	987.9 (18.5% U.F)	2 (no change)
3	Portugal	47.6	CMA_ccc	798.3	4 (down 1)
4	Ireland	47.2	CMA_ccc	791.6	3 (up 1)
5	Pakistan	44.9	CMA_ccc+	811.6	New entry
6	Argentina	34.9	CMA_b-	588.1	5 (up 1)
7	Ukraine	28.6	CMA_b+	462.7	6 (up 1)
8	Lebanon	22.2	CMA_bb-	351.0	8 (no change)
9	Vietnam	21.8	CMA_bb	319.3	New entry
10	Dubai	21.7	CMA_bb	335.6	New entry

- Greek spreads peaked on 27th June - one day before the austerity measures set by the EU and IMF were approved by the Greek parliament. Spreads rallied following the decisive vote, but remain high with five year probability of restructuring at 80% and the markets expecting it to take around two years for the austerity measures to drive down the cost of borrowing.
- Pakistan enters the top 10, following a pick up in liquidity this quarter, but remains thin with bid/ask spreads around 100bp and quote volumes light.
- Vietnam enters the top 10, following rallies in Iraq and Egypt which exit the top 10.



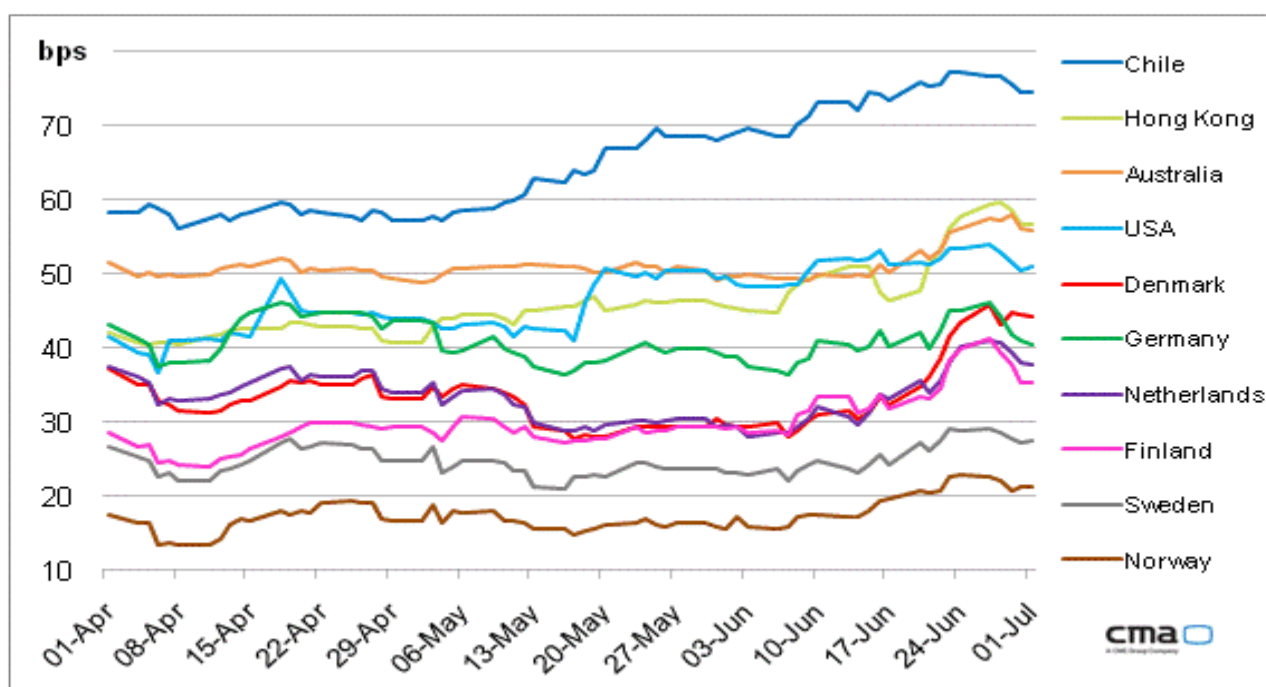
Note: CPD is a function of the market's recovery level which varies according to several factors and distance to default. Venezuela assumes 25% and Greece 40%.



Top 10 Least Risky

Position Q4	Country	5 Year CPD (%)	CMA Implied Rating	5 Year CDS Mid (bps)	Previous Ranking
1	Norway	1.9	CMA_aaa	21.1	1 (No Change)
2	Sweden	2.4	CMA_aaa	27.1	2 (No Change)
3	Finland	3.1	CMA_aaa	35.3	3 (No Change)
4	Netherlands	3.4	CMA_aaa	38.0	5 (up 1)
5	Germany	3.6	CMA_aaa	40.9	9 (up 4)
6	Denmark	3.9	CMA_aaa	44.5	6 (No Change)
7	USA	4.4	CMA_aa+	50.5	8 (up 1)
8	Hong Kong	4.5	CMA_aa+	56.6	7 (down 1)
9	Australia	5.0	CMA_aa+	57.1	New Entry
10	Chile	5.2	CMA_aa+	74.2	10 (No Change)

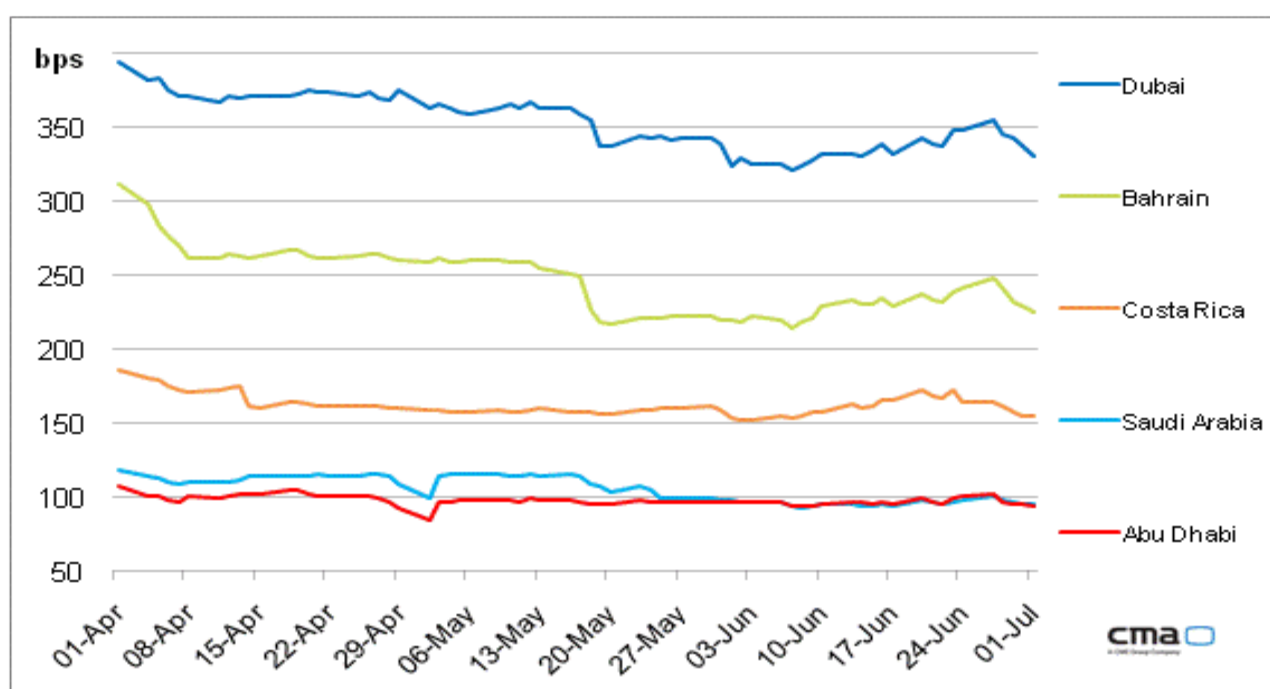
- No change in the top three, with Finland widening 4bp over the quarter.
- Germany moves up to 5th place, as the strong economy outweighs the EU's woes over Greece, Portugal and Ireland.
- Australia enters the top 10 as a lack of liquidity in Switzerland sees it dropped from the report.
- Spreads in Chile widen to 74bp this quarter, as the 'premium' for strong emerging market economies such as Chile were perhaps a little over-stretched at the beginning of the quarter.



Best Quarterly Performances – Percentage Change

Country	5yr Mid 1 st Apr bps	5yr Mid 30 st Jun bps	Change %
Bahrain	315.3	228.9	-27.4
Saudi Arabia	119.3	95.2	-20.2
Costa Rica	190.0	155.6	-18.1
Dubai	402.7	335.6	-16.7
Abu Dhabi	109.9	94.8	-13.7

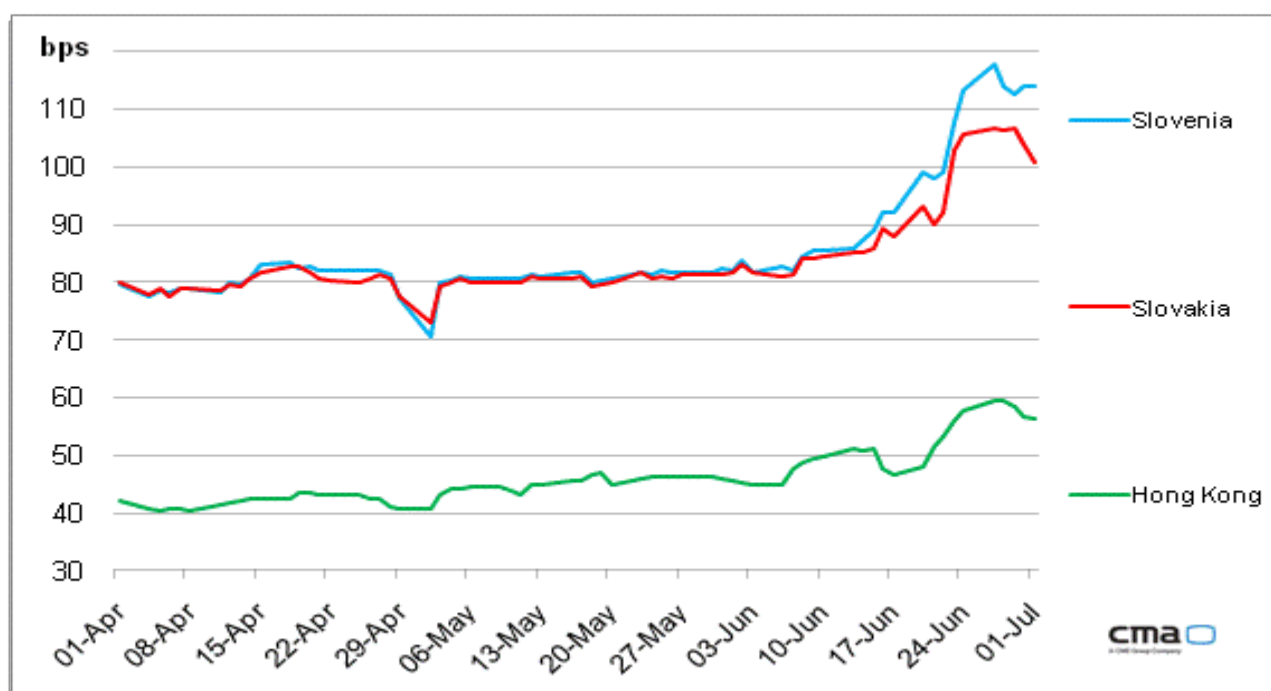
- This quarter's best performers were dominated by the Middle East, with Bahrain being the top performer.
- Data for Costa Rica is derived using CMA's sector model as liquidity is extremely thin.



Worst Quarterly Performances – Percentage Change

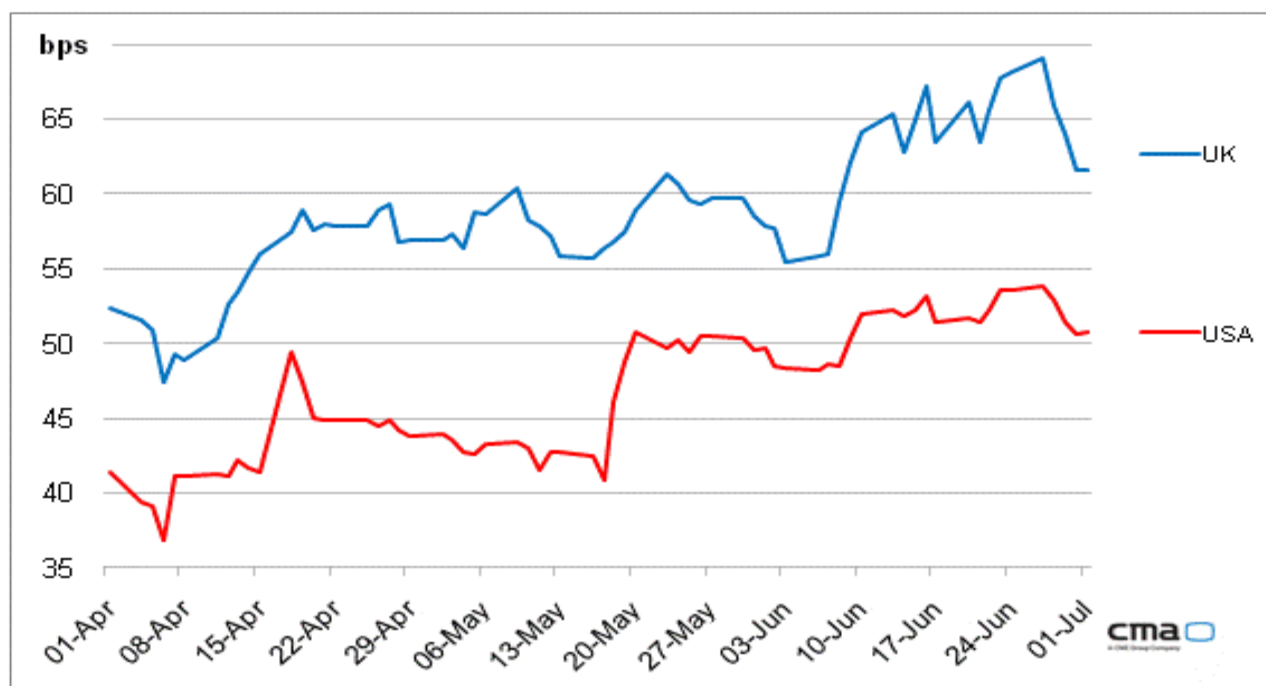
Country	5yr Mid 1 st Apr bps	5yr Mid 30 st Jun bps	Change %
Greece	1037.2	2100.3	102.5
Slovenia	79.8	113.9	42.6
Portugal	578.6	798.3	38.0
Hong Kong	42.0	56.6	34.6
Slovakia	79.6	104.2	30.8

- Spreads in Greece doubled this quarter, as George Papandreou experienced perhaps one of the toughest quarters of his tenure, facing growing civil unrest on one side and demands for sweeping austerity measures by the EU and IMF on the other. The CDS credit curve remains inverted, peaking at the two year point.
- Many of the countries, globally, exhibit a peak at the end of June, indicating the vote would have an effect on the global economy.
- Slovakia and Slovenia widen over 30bp.
- The CDS curve in Portugal also inverted this quarter, with two year spreads above 1000bp and a one in three chance of restructuring within two years.



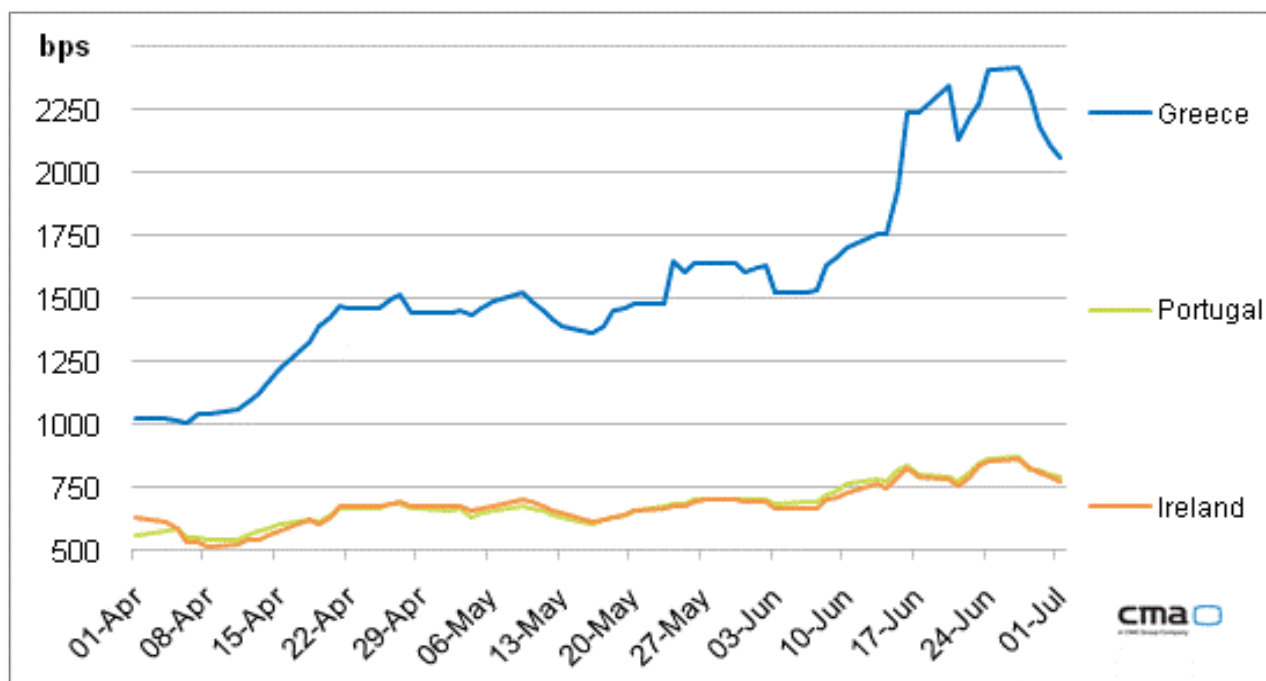
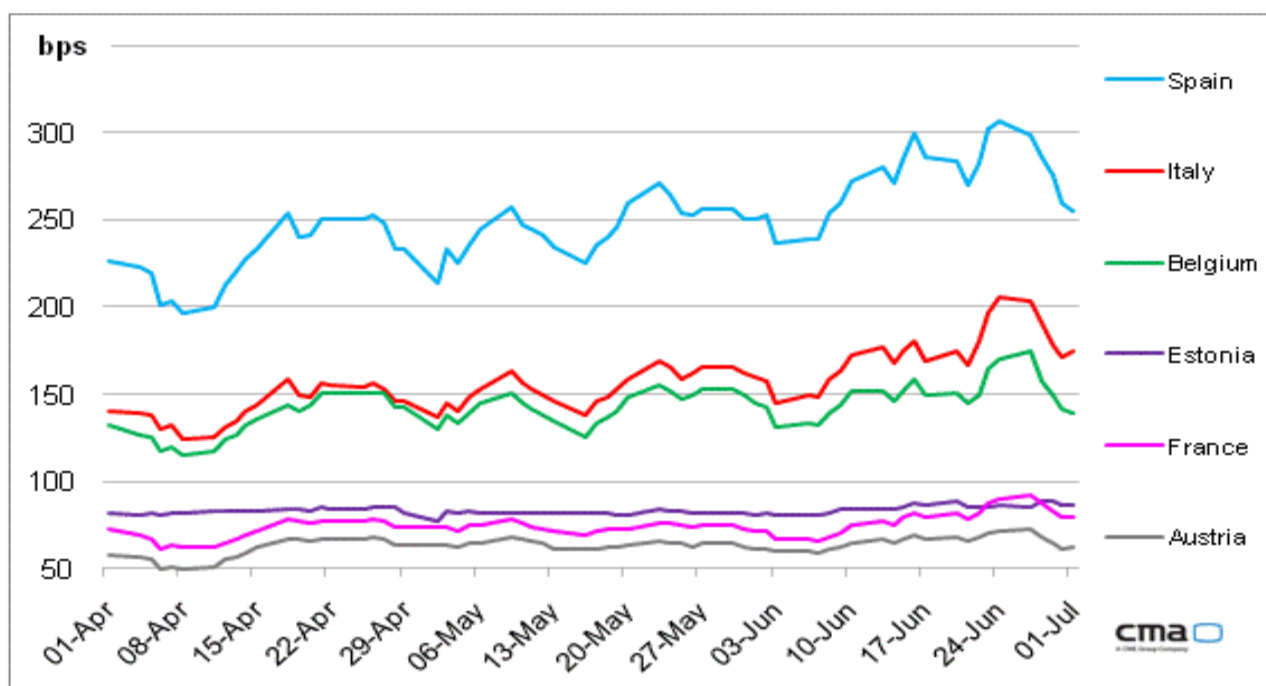
Regional Focus: USA and UK

- The CDS curve for the United States flattened at the end of May, as concerns of a technical default from delays in the budget approval process saw increased demand from buyers of short-term protection. S&P also put the world's largest economy on negative watch. The CMA CDS implied rating dropped to CMA_aa+ from CMA_aaa this quarter.
- Spreads for the UK widened gradually this quarter, following weak signals in the economy and also peaked on the 27th June to 69bp but rallied sharply to 62bp, finishing the quarter 10bp wider.



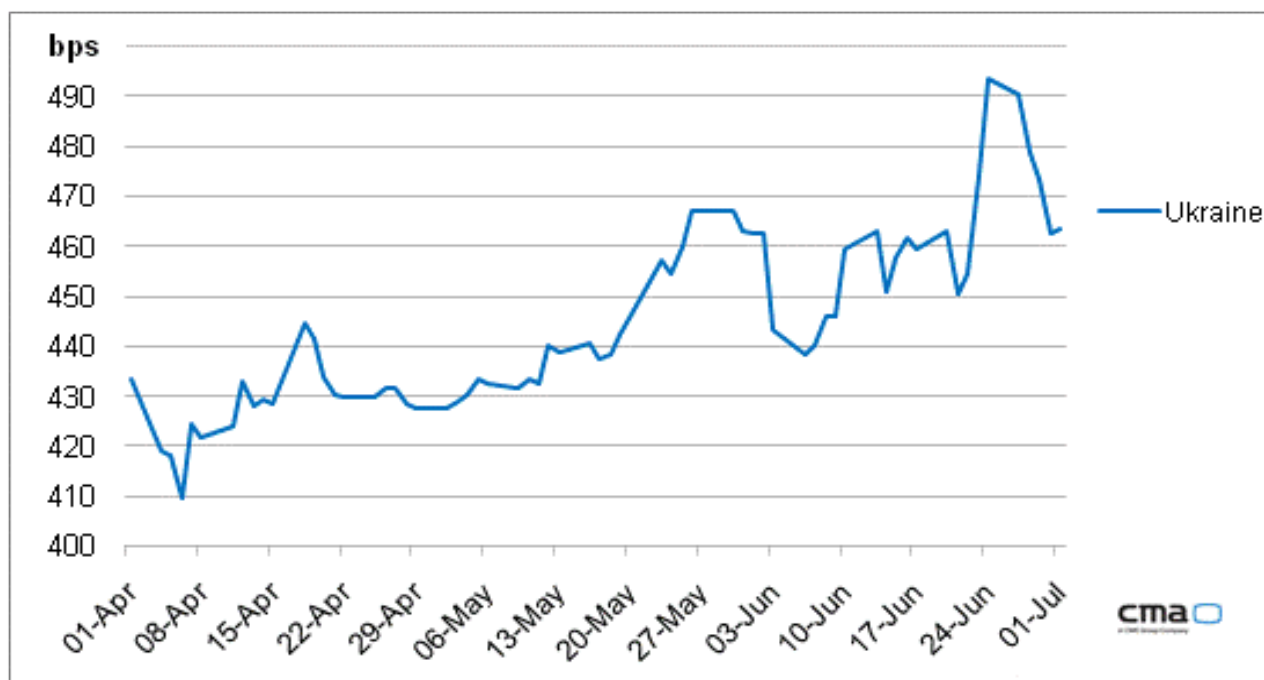
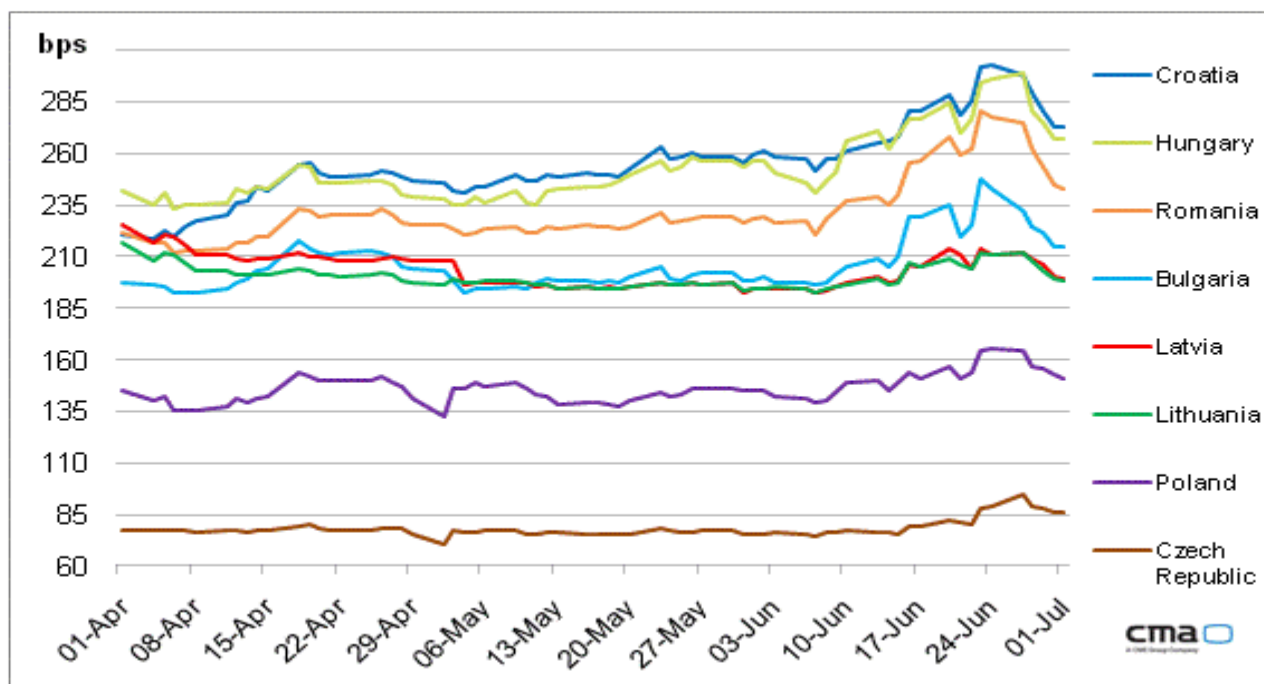
Regional Focus: Western Europe

- It was another busy period for EU administrators in Brussels as they try and work out an austerity and borrowing package which will avoid a restructuring of debt in Greece. They can take some comfort in the fact that spreads in countries which would have high implied CDS FX devaluation effects on the Euro (Italy, France, Austria) remained relatively stable.
- The implied CDS devaluation effect for Greece is around 3% (Euro/US Dollar) devaluation. The Euro declined from 1.48 to 1.43 following the increased prospect of a default by Greece.



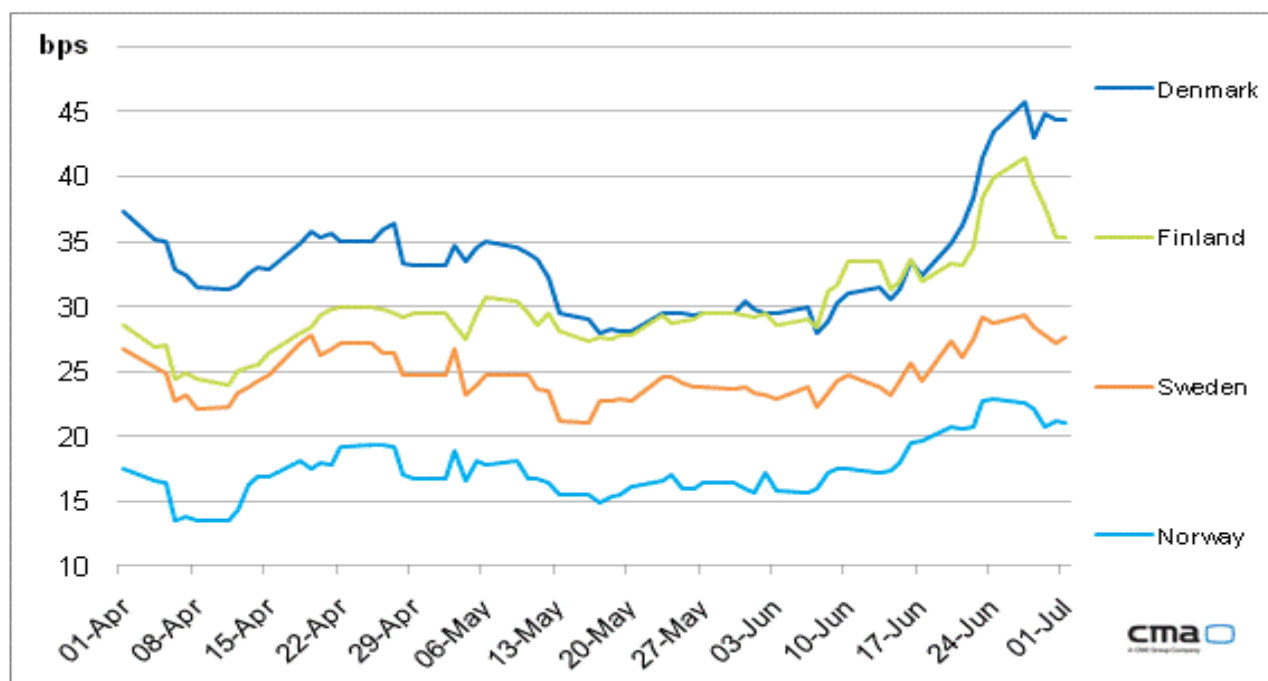
Regional Focus: Emerging Europe

- A relatively flat quarter for Emerging Europe.
- The spread levels peaked highest for Emerging Europe at the end of June compared to other countries, as you would expect given the close link to Western Europe.
- Ukraine remains an outlier but managed to stay below the 500bp level in the quarter.



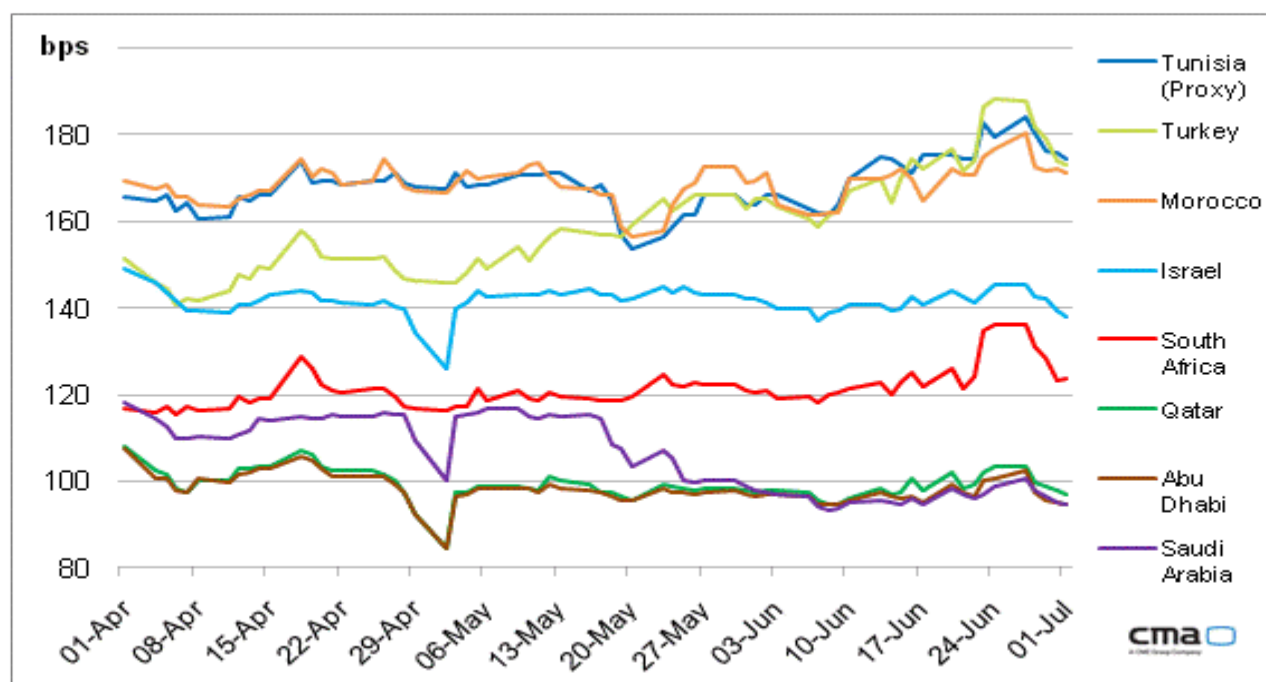
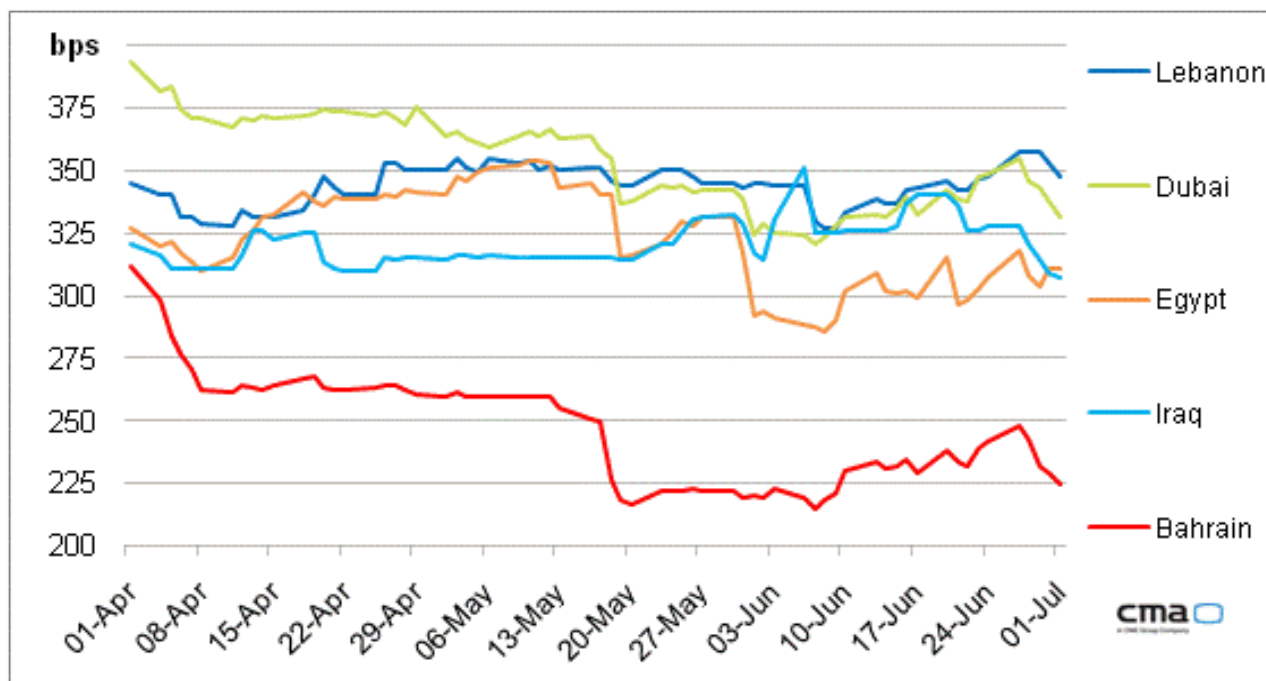
Regional Focus: Scandinavia & Nordic Region

- A slowing of global growth and the drop in oil prices mid June started a widening of spreads in the Nordic region, peaking on the 27th June.
- Norway and Sweden retain their hold on the top two positions as the world's least risky sovereign debts.



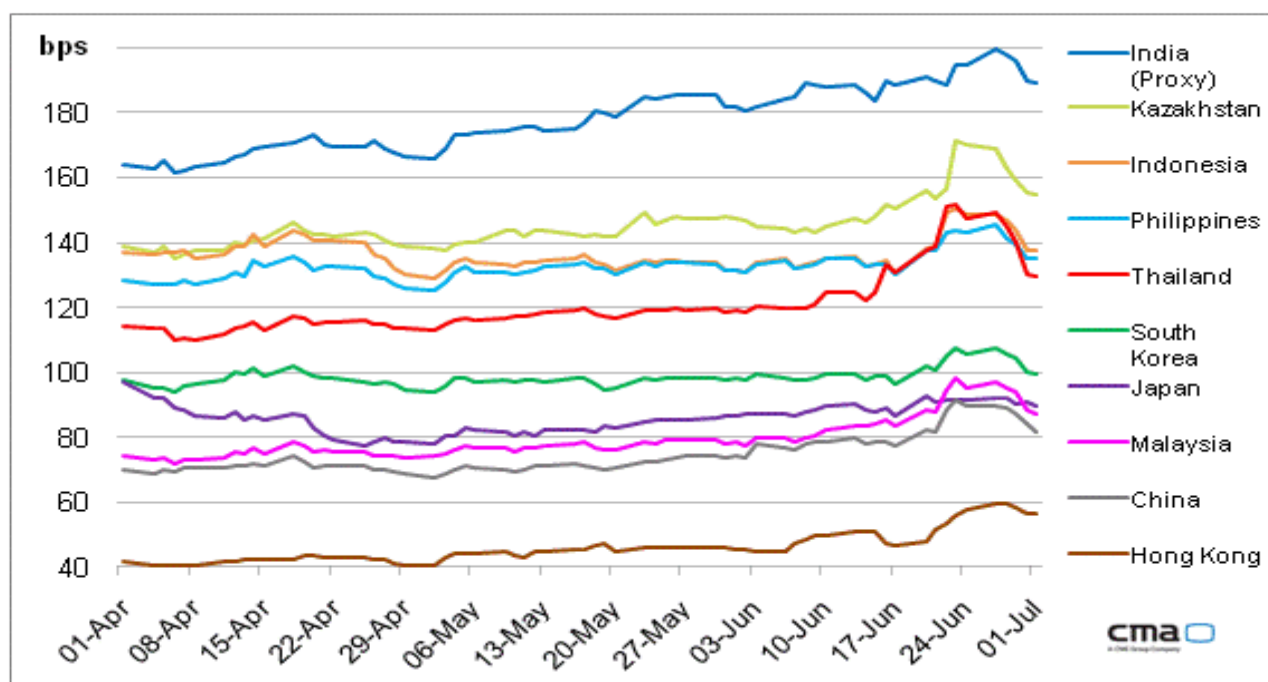
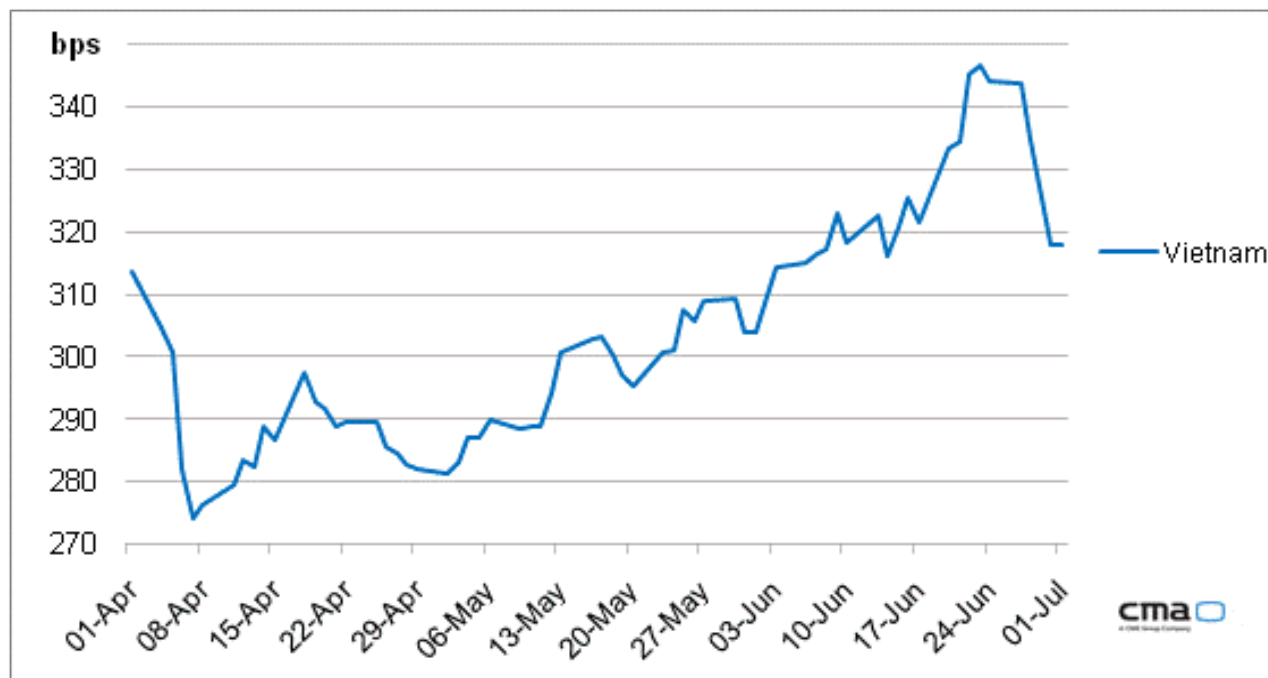
Regional Focus: Middle East & North Africa

- Overall a positive quarter for the region as the civil unrest subsided in Q2, compared to the curves in the Q1 2011 report.
- Turkey spreads widened gradually throughout the quarter finishing 23bp wider at 174bp. The economy remains strong.
- Bahrain was in the top five best performers for the quarter.



Regional Focus: Asia

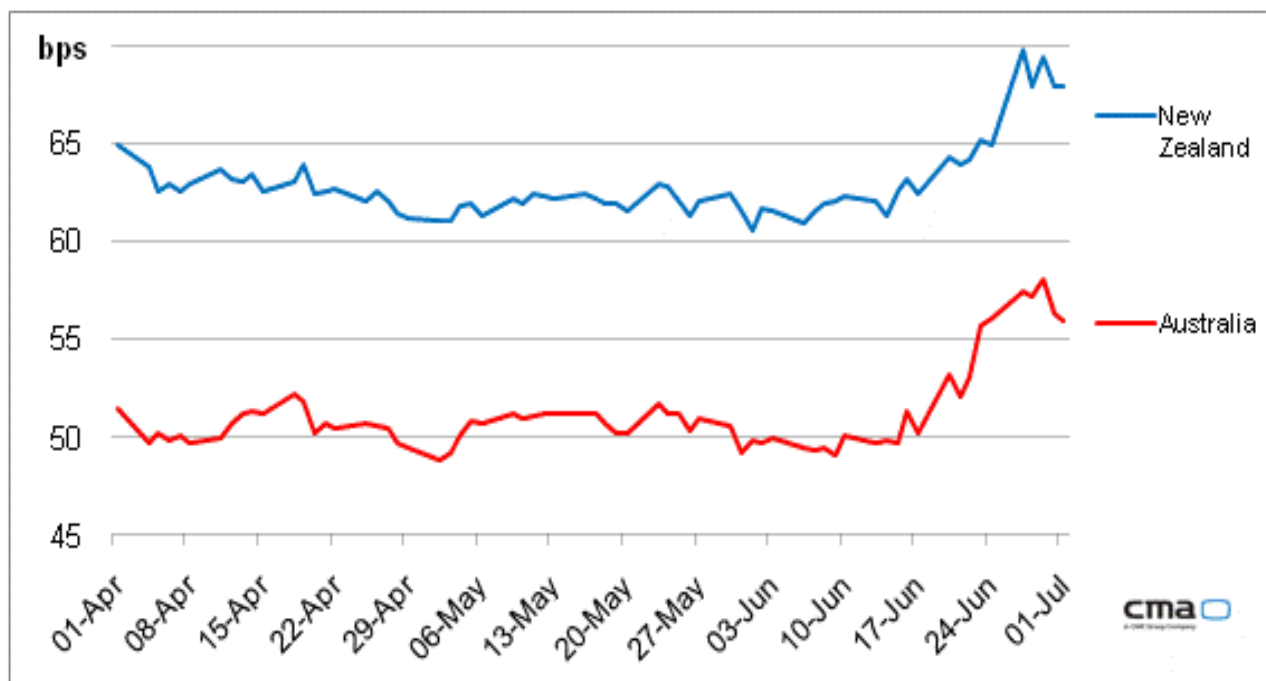
- A relatively quiet period for the region. However all the curves peak at the end of June, indicating that the concerns in Europe could have a potential impact on export-driven Asian economies.
- Vietnam remains the outlier in the group.



Note: State Bank of India is used as proxy for India.

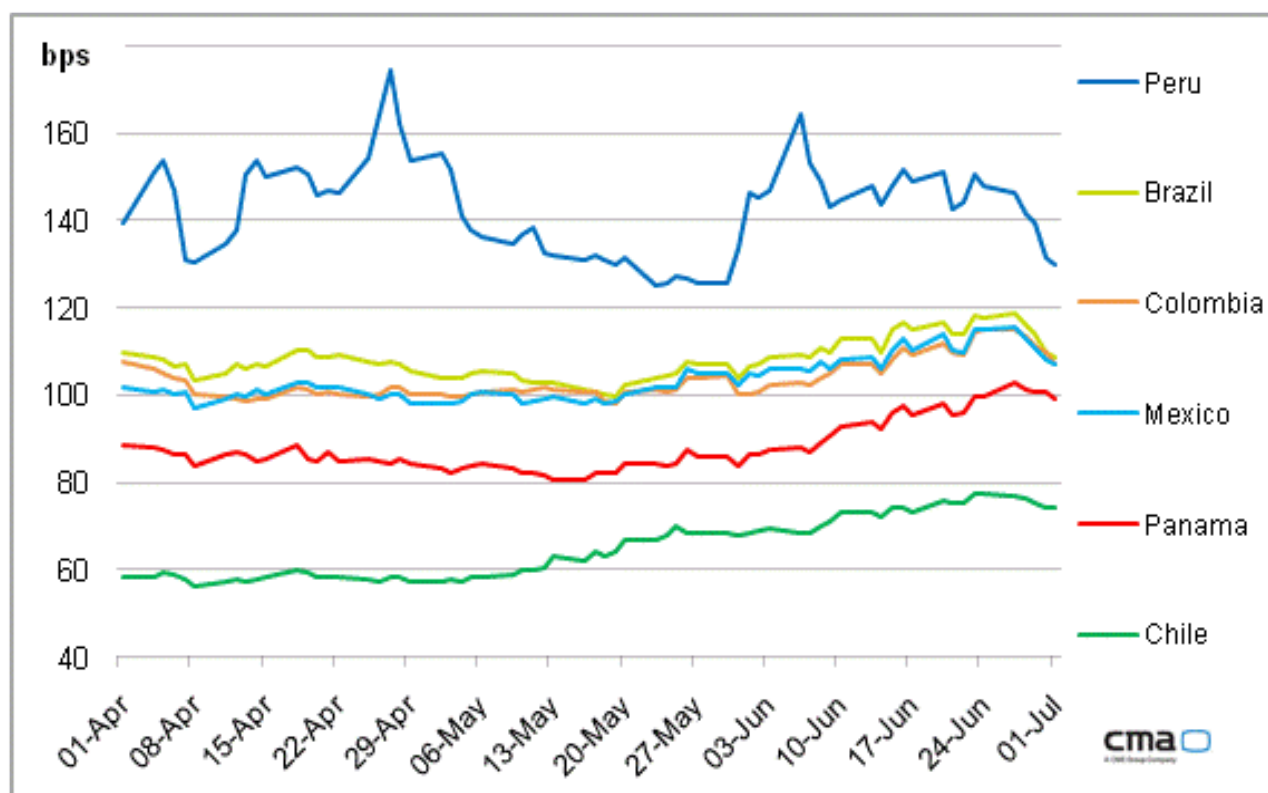
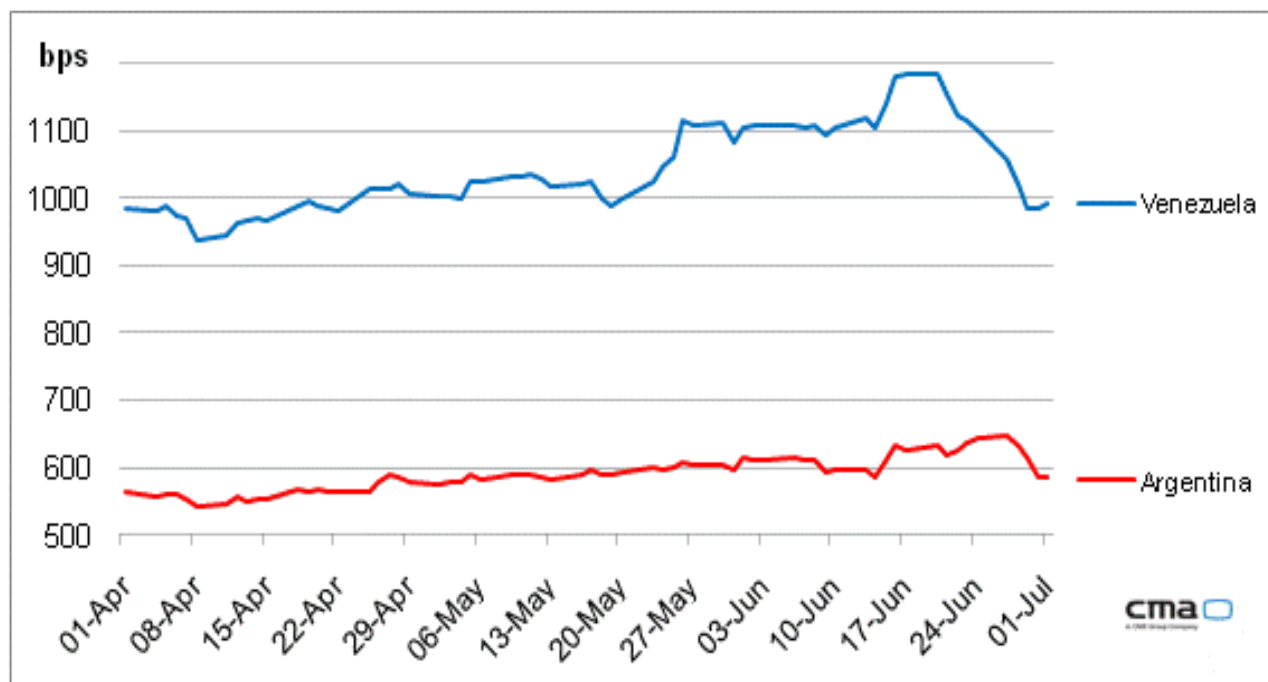
Regional Focus: Australia & New Zealand

- Australia & New Zealand widened mid-June, as concerns over the sustainability of the growth in China saw a sell-off in commodity prices.



Regional Focus: Central & South America

- Spreads in South America drifted wider from the middle of the quarter, indicating some profit-taking and perhaps concerns that the emerging market risk premium is too high.
- One year protection in Brazil was 13bp lower than one year United States at the end of May.
- Venezuela ended the quarter fairly flat, staying in the top 10 most risky table. (Recovery = 25%).



Global Ranking by CPD

Country	CPD (%)	5yr Mid (bps)	CMA Implied Rating 30 th June	CMA Implied Rating Q1
Greece	80.6%	2100.3	CMA_cc-	CMA_ccc-
Venezuela	51.4%	987.9	CMA_ccc	CMA_ccc
Portugal	47.6%	798.3	CMA_ccc	CMA_b-
Ireland	47.2%	791.6	CMA_ccc	CMA_b-
Pakistan	44.9%	811.6	CMA_ccc+	CMA_ccc+
Argentina	34.9%	588.1	CMA_b-	CMA_b
Ukraine	28.6%	462.7	CMA_b+	CMA_b+
Lebanon	22.2%	351.0	CMA_bb-	CMA_bb-
Vietnam	21.8%	319.3	CMA_bb	CMA_bb
Dubai	21.7%	335.6	CMA_bb	CMA_bb-
Spain	20.8%	259.1	CMA_bb	CMA_bb
Egypt	20.3%	310.7	CMA_bb	CMA_bb
Iraq	19.9%	309.1	CMA_bb	CMA_bb
Iceland	19.7%	228.9	CMA_bb	CMA_bb+
Croatia	17.9%	273.1	CMA_bb+	CMA_bbb-
Hungary	17.6%	267.1	CMA_bb+	CMA_bb+
Romania	16.2%	245.0	CMA_bbb-	CMA_bbb-
Bahrain	15.1%	228.9	CMA_bbb-	CMA_bb
India	14.7%	189.2	CMA_bbb+	CMA_bbb
Bulgaria	14.4%	214.5	CMA_bbb-	CMA_bbb
Italy	14.3%	170.8	CMA_bbb	CMA_bbb+
Latvia	13.5%	200.6	CMA_bbb	CMA_bbb-
Lithuania	13.4%	198.8	CMA_bbb	CMA_bbb-
Belgium	12.0%	141.5	CMA_bbb+	CMA_bbb+
Turkey	11.8%	174.0	CMA_bbb+	CMA_a
Tunisia	11.8%	175.9	CMA_bbb+	CMA_a-
Morocco	11.6%	172.1	CMA_bbb+	CMA_a-
Thailand	11.1%	130.4	CMA_bbb+	CMA_aa
Costa Rica	10.8%	155.6	CMA_bbb+	CMA_bbb
Kazakhstan	10.6%	155.3	CMA_a-	CMA_aa
Poland	10.4%	152.2	CMA_a-	CMA_aa-
Indonesia	10.2%	138.0	CMA_a-	CMA_aa
Philippines	10.1%	135.4	CMA_a-	CMA_aa
Uruguay	9.9%	145.3	CMA_a-	CMA_a+
Russia	9.7%	141.7	CMA_a-	CMA_aa
Israel	9.6%	139.8	CMA_a-	CMA_aa-
Peru	9.0%	131.3	CMA_a	CMA_aa
South Africa	8.6%	123.4	CMA_a	CMA_aa
South Korea	8.0%	100.0	CMA_a+	CMA_aa

Slovenia	7.9%	113.9	CMA_a+	CMA_aa+
Malaysia	7.7%	88.1	CMA_a+	CMA_aa+
Brazil	7.6%	109.9	CMA_a+	CMA_aa
Colombia	7.5%	108.2	CMA_a+	CMA_aa
Mexico	7.4%	107.1	CMA_a+	CMA_aa
Japan	7.3%	90.9	CMA_a+	CMA_aa
Slovakia	7.2%	104.2	CMA_a+	CMA_aa+
France	7.0%	79.8	CMA_a+	CMA_aa+
Panama	6.9%	99.8	CMA_aa-	CMA_aa+
China	6.8%	84.5	CMA_aa-	CMA_aa+
Qatar	6.8%	97.8	CMA_aa-	CMA_aa
Saudi Arabia	6.6%	95.2	CMA_aa-	CMA_aa-
Abu Dhabi	6.5%	94.8	CMA_aa-	CMA_aa
Czech Republic	6.1%	86.6	CMA_aa	CMA_aa+
Estonia	6.0%	86.3	CMA_aa	CMA_aa+
New Zealand	5.9%	67.7	CMA_aa	CMA_aa+
Austria	5.4%	61.7	CMA_aa	CMA_aa+
UK	5.4%	61.4	CMA_aa	CMA_aa+
Chile	5.2%	74.2	CMA_aa+	CMA_aa+
Australia	5.0%	57.1	CMA_aa+	CMA_aa+
Hong Kong	4.5%	56.6	CMA_aa+	CMA_aaa
USA	4.4%	50.5	CMA_aa+	CMA_aaa
Denmark	3.9%	44.5	CMA_aaa	CMA_aaa
Germany	3.6%	40.9	CMA_aaa	CMA_aa+
Netherlands	3.4%	38.0	CMA_aaa	CMA_aaa
Finland	3.1%	35.3	CMA_aaa	CMA_aaa
Sweden	2.4%	27.1	CMA_aaa	CMA_aaa
Norway	1.9%	21.1	CMA_aaa	CMA_aaa

About CMA & Contact Details

CMA, the world's leading source of independent, accurate OTC credit market data, has unrivalled access to information about what is actually happening in the CDS markets. It combines this unmatched breadth and depth of pricing data with market-leading technology to deliver clear and valuable information to financial institutions around the world.

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Neither the author, nor CMA have any investments in the OTC credit markets.

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